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C O N F I D E N T I A L SECTION 01 OF 03 BEIRUT 003231

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TAGS: PGOV PREL PTER KCRM ECON LE SY

SUBJECT: LEBANESE ECONOMY MINISTER: AG AND FUEL SUBSIDIES  
OUT, PRIVATIZATION, TRADE AGREEMENTS AND BEIRUT I ON TRACK

Classified By: Ambassador Jeffrey D. Feltman. Reason Sections 1.4 (b) and (d).

SUMMARY

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¶11. (C) Minister of Economy and Trade (MOET) Sami Haddad summarized on October 5 for the Ambassador and econoff his attempts to phase out GOL agricultural subsidies, revive the TIFA and WTO accession, and move forward on Lebanon's social reform agenda. The Beirut I donor conference is likely to proceed on schedule in late November. Haddad is working to facilitate GOL attempts to privatize the telecom sector in the short term. Extravagant direct aid from Qatar to rebuild housing is harming the GOL's image and its efforts to ensure equity in reconstruction aid. Lebanon needs to create a job growth engine, perhaps along the lines of an industrial zone, in the south to promote stability. Finally, Haddad told us that with the drop in world oil prices, the GOL is once again collecting excise taxes on fuel. End Summary.

PHASING OUT AG SUBSIDIES

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¶12. (C) Haddad announced to the Ambassador that he sees GOL wheat and sugar beet subsidies being phased out as farmers pick up on market signals. He expects wheat ad beet yields to have decreased by at least one third this year as farmers move out of cultivationof these crops. He is shifting MOET's emphasis from subsidization to promotion of alternative crops. Tobacco subsidies, which are administered through the Ministry of Finance (MOF), and additional programs administered through the Ministry of Social Affairs (MSA), remain in force. A special committee will meet October 6 with Embassy and MOET participation to plan aid programs to be carried out with the funding from the U.S. emergency wheat shipment that arrived during the conflict.

MOVING FORWARD WITH TIFA, OPIC;  
WTO ACCESSION FACES OBSTACLES

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¶13. (C) Haddad raised the topic of the Trade and Investment Framework Agreement (TIFA). He has obtained Ministry of Finance approval and is now awaiting the sign-off of the Ministry of Foreign Affairs (MFA). He will speak to the PM this weekend to ask whether he has the authority to sign a TIFA into force or whether he needs formal Cabinet approval, and then will contact the Embassy to determine what is the

best date and venue for signing. Haddad also agreed to examine the 1981 OPIC agreement with the GOL and will take up with the PM the issue of how to modernize the agreement, such as removing the requirement of GOL approval for individual projects.

¶4. (C) WTO accession faces considerably more obstacles, Haddad's trade advisor explained, despite progress made by the GOL before the recent conflict in reducing trade distorting subsidies, exchanging information with the WTO Secretariat, and engaging U.S. representatives at the WTO

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headquarters in Geneva. Since the conflict, the GOL faces new resistance, especially from the agricultural sector, and may have to request a longer transition period. Econoff will follow up with the MOET to pursue additional details of how the crisis has affected the accession process.

FACING MINISTRY OF HEALTH RESISTANCE  
ON IPR AND SOCIAL REFORM AGENDA

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¶5. (C) IPR and pharmaceutical issues were also on Haddad's agenda. The GOL has not yet replied to a U.S.-French-EU letter on this topic because Minister of Health Khalifeh opposes the elements proposed for IPR protection for foreign pharmaceutical companies. Haddad argued that Khalifeh is also the main obstacle to a broader MOET and Ministry of Social Affairs reform agenda to address Lebanon's low social indicators in such areas as maternal and child mortality and education, even though these are areas that presumably would benefit the Health Minister's Shia constituents. Instead, Khalifeh is promoting a prohibitively expensive "universal health card" program, which he may present in a forthcoming

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Cabinet meeting.

SEEKING INDUSTRIAL ZONES TO  
SHRINK ECONOMIC DISPARITIES

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¶6. (C) Regarding a recent Arab-American private sector delegation to Lebanon and its suggestion to create an investment zone in the south, Haddad said the MOET would like to work on a project that encouraged job creation and increased investment in the south and possibly the north as well to encourage business-friendly legal reforms, economic development and increased social stability.

BEIRUT I DONOR CONFERENCE PLANNING

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¶7. (C) One of Haddad's advisors is participating in Finance Minister Azour's team of 20 working on planning for Beirut I. Haddad reported that the working group has already begun meeting. Haddad expressed frustration that he had been unable, despite pressing, to obtain a firm date for the planned Beirut I donor conference from his GOL colleagues or Saad Hariri. While he has heard that 30 November is being considered, he has also heard that an Iraq Donors Conference has already been scheduled for 30 November, creating a conflict for certain World Bank and IMF employees who will be expected to attend both meetings. (Note: World Bank representatives noted this same conflict on the November 30 date during an informal meeting with donors on October 5. End Note.)

¶8. (C) On a more positive note, Haddad expressed pleasure that so many upcoming conferences will focus on Lebanon. An October 17 Arab League Economic and Social Council extraordinary session in Beirut is planned to focus on opening Arab markets to Lebanese products. A November 7-8 Arab Bank Union meeting and a November 23 private sector conference are also planned in Beirut to promote

reconstruction and private sector investment.

¶19. (C) Before the recent war, the GOL had hoped to collect USD 5 billion in soft loans at its planned donor conference. Today, Haddad said, it hopes to collect at least that figure in soft loans and significant additional grants. Lebanon has already received at least USD 1 billion in grants, including USD 500 million from the Saudis.

#### RECONSTRUCTION PROGRESSING

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¶10. (C) Arab countries have taken care of housing reconstruction, Haddad said, and the GOL has taken care of infrastructure repairs with foreign donor help. Now the Finance Ministry is working on a "rescue package" for the private sector that uses financial incentives and indirect subsidies rather than grants. Haddad warmly received the Ambassador's suggestion that the GOL extend some of the measures it introduced during the conflict to cut red tape for local businesses, but deferred to Finance and Customs for implementation.

¶11. (C) On a negative note, Haddad claimed that Qatar has refused to disburse its aid through the GOL or to follow GOL guidelines in compensating for destroyed housing. This, Haddad said, is making the GOL look bad and harming GOL efforts to ensure fair payouts and transparent compensation. Qatar is also paying too much for each house that was destroyed, in comparison to GOL efforts to establish strict guidelines for replacing each brick and pane of glass damaged; this embarrasses the GOL and is a waste of donor money that could be better spent elsewhere. Haddad also acknowledged that what he described as the "gold-plated houses" Qatar was building embarrassed other donors, especially Saudi Arabia: the Saudis were paying for reconstruction of villages nearby those adopted by Qatar. As the Saudis are sticking strictly to GOL guidelines, the Saudis look cheap by comparison to the Qataris.

#### PUSHING FORWARD ON PRIVATIZATION PLANNING

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¶12. (C) More encouraging was Haddad's news that the Prime Minister's Office called an ad hoc meeting of the Higher Privatization Council to give a mandate to Citibank and JPMorgan Chase to provide advisory services for the planned privatization of Lebanon's two cellular providers. The remaining obstacle to this privatization is the approval of a slate of recommendations for the telecom regulatory board. Haddad told us that Minister of Telecommunications Marwan Hamadeh said the candidates for the board have already been vetted, but the list has not yet been submitted to the cabinet and apparently President Lahoud objects to some of the names. The Ambassador pressed Haddad on whether the decision to hire investment banks as advisors indicated that the cabinet has now definitively approved telecom privatization. Haddad, after some evasive comments, eventually acknowledged that he was not certain.

#### FUEL TAXES -- SOME POSITIVE NEWS

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¶13. (SBU) In another positive development, Haddad noted that since oil prices have dropped, but fixed fuel prices remain in effect, the GOL is collecting an excise tax from fuel sales, rather than paying out an effective subsidy, for the first time since early 2006.

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